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KENT ECONOMIC
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INSTITUTE

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KEDI ECONOMIC SURVEY

MAY ISSUE

May 30, 1980

President: Vladimir J. Simunek

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

In the last issue of the KEDI survey the following viewpoint was expressed: If the Administration does not act in May, June, or July to help the economy, then the government inspired recession that ensues will become the worst economic disaster since the Second World War.

In May, the Administration did take some action. In the economic poker game being played in Washington, the partial step by the Federal Reserve did ease the credit restraints substantially for consumers and businesses. That action was suggested by KEDI several months ago. It is certainly better late than never.

However, it is important to keep in mind that help must come from the money and credit side and from the fiscal side. The budgetary policy should follow the lead of the monetary and credit policies. Without the addition of fiscal measures, the Administration's aid to the economy will be incomplete and will unnecessarily prolong the downturn which is a bit sharper at present than was anticipated by this Institute.

During the first part of this year, the concern for balancing the Federal budget seemed to preclude any real fiscal first aid to the economy. During March and April cutting government spending to match revenues was of major interest. At last,

there are indications that a more balanced perspective is taking hold. On May 31, in Columbus, Ohio, President Carter said, "We've got serious recession prospects, steeper than we expected." He went on to say that there are already programs on the books that can be strengthened to provide some assistance for such areas of concern as youth unemployment and home construction.

Carter has frequently spoken of the help that the Administration would provide should economic conditions become severe. In the middle of May, he assured automobile makers that there was concern for the plight of that industry. At that time, no specific aid was offered. It was stated that there would be a review of problems created by government regulation and credit policies. Another meeting with automobile industry leaders was planned for around the end of June.

The assumption by this Institute is that easing of the credit restraints will continue. However, there will not be any more substantial declines in the interest rates. It is expected here that the prime rate will drop to the 12-13 per cent range by the end of the year. No further declines are expected after that time.

At present, the interest rates <u>overseas</u> are already <u>ABOVE</u> the American rate. Any further drop in these rates will have disastrous effects on the international value of the dollar. By late May, the United States dollar declined to the low level it was at one and one-half years ago. Our lowering

interest rates together with the higher rates in England contributed to the British pound going up in terms of our currency to $2.37 during the last week of May. (The thin silver lining of that relationship may be in a rise in the number of English people coming over here to spend money and visit coastal areas to got out in the midday sun.)

In summary, the position of this Institute has been that the Administration has to adopt FISCAL measures along with money and credit measures. Such measures will assure that the current downturn will be of a short duration. If there is any recession, such measures will cut it short.

Calculations here show that roughly $10 billion in federal help to the economy in the critical areas of housing, cars, and employment would be adequate to prevent any more decline. That amount of spending is not really all deficit spending if an overview is taken which includes state and local budgets where there are budget surpluses totalling roughly $20 billion. Such Federal spending would contribute to the beginning of some bouncing back for the latter part of this year and the first part of 1981.

Treasury Secretary G. William Miller expressed the cheerful view that the current declining quarter will be followed by a flat quarter. This is considered an "L" shaped economic picture. Improvement will begin in the last quarter of the year.

That scenario is the one that KEDI predicts will become reality as long as there is fiscal action by the Administration.

KEDI forecast based on the Administration's fiscal action, is highlighted in Table 1.0 on the following page.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.7	1433.9	1749.2
Index of Industrial Production	1967 =100	145.2	152.2	150.0	178.9
Capacity Utilization	%	84.3	85.7	81.4	87.2
Unemployment Rate	%	6.0	5.9	7.4	6.1
Private Housing Starts	mil. units	2.020	1.721	1.175	1.958
Car Sales	mil. units	11.3	10.8	8.0	13.1
Implicit GNP Price Deflator	1972 =100	152.1	165.5	181.3	281.6
Consumer Price Index	1967 =100	195.3	217.5	246.9	394.1
Producer Price Index	1967 =100	209.3	236.2	271.9	410.2
Federal Deficit	bil.$	-27.7	-11.2	-20.5	-13.6
Personal Income	bil.$	1717.4	1924.2	2110.8	3341.5
Prime Rate	%	9.06	12.76	11.83	10.12
Mortgage Rate	%	9.30	10.60	12.77	9.98
Currency plus Demand Deposits	bil.$	326.6	363.8	374.6	629.3
Commercial and Industrial Loans	bil.$	230.9	265.7	288.5	501.6

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the April,1980, forecasts, no substantial changes take place. The forecast data for the year 1980 and a part of 1981, have been lowered in real terms. The revised forecast presented here reflects rather the impact of the downturn in economic activity in April-May, than the change in Assumptions.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40, in 1982, to $46 per barrel, and in 1983, to $56 per barrel.

2. It is still too current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. No more tightening in fiscal and monetary policies will occur. In Summer, the Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more orchestrated anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvest are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

West Germany	3.0%	2.8%	3.1%
Italy	2.1	2.0	2.6
Japan	2.0	2.0	2.3
Great Britain	1.7	1.6	1.9
France	2.0	2.1	2.2

1.1 REAL GROWTH

(Table 01. on page 11)

This year started out with less economic energy than 1979. However, there was some real growth during the first quarter.

The economic news that is developing during the current quarter does not show growth. However, it is not as bad as some had predicted earlier. This Institute expects the approximately 5% decline in real GNP will take place, contrary to some forecasters who expect the 8% drop.

Looking at the negative news, the U.S. automobile industry leads in showing a decline. Sales of U.S. made cars fell by 42 per cent in early May from the year earlier figure. It was the lowest rate of sales in 22 years. Such a large drop had not been anticipated by KEDI.

It was announced that 15 U.S. plants producing cars and light trucks will be closed for one to two weeks in early June in an effort to make a dent in inventories. That action will put about 32,000 more employees out of work.

In the middle of May, weekly production by steel companies went down to a level that had not been reached in the past two years. The industry was operating below 80 per cent capacity in the middle of May. The declines in production reflect the efforts by steelmakers to get production in line with demand

and prevent the accumulation of huge inventories. Housing permits issued in April also fell. When compared to March, these were down by 14.2 per cent.

Industrial production went down by a seasonally adjusted 1.9 per cent in April. This decline was led by the decreased output of car parts and construction supplies, but indications are, that downturn is beginning to spread over a large number of industries.

The Labor Department released their revised report on productivity. It showed that there was a decline in this area during the first quarter when productivity fell by a seasonally adjusted annual rate of 0.6 per cent. That is the fifth quarter of decline in private business productivity.

Machine tool orders were down in April by 22 per cent from the March level. When allowance is made for price increases, April orders of this year are roughly 25 per cent below the year-earlier figure. Industry analysts point to the low operating rate of the nation's factories, about 81 per cent, as an indicator of further declines in machine tool orders. However, there are those in that industry that see business as being fairly good during the rest of the year due to the balancing effect of the strength in the energy industry, aircraft manufacturers, and electronic and defense production.

There is other news that is of a positive nature. First, a sharp drop in the demand for oil plus a lowering in general in demand for imports narrowed the trade gap in April. That gap

was the smallest it had been for three years. The difference between exports and imports in March produced a seasonally adjusted deficit of about $3.2 billion. That narrowed to about $1.9 billion in April. U.S. imports were down in April by 6.2 per cent from the March level. Exports went down by 0.4 per cent in that period. Our importing of oil in volume terms fell by over 18 per cent. The slowing of the economy is, of course, involved in the benefit of a better trade picture.

In terms of car sales, there will likely be a slowing of the decline reflected in late May and early June figures due to the reinstituted direct rebate offers to customers. Also, in the auto industry, there are some workers that are putting in overtime. They are the people building small cars at some U.S. plants.

The housing situation is not as bad as some indicated it would be. Housing starts declined in April by about 2 per cent using seasonally adjusted annual rates. Such starts were at a seasonally adjusted level of 1,050 million units.

Rather than being in a deep recession, the negative and positive news considered together present an economy that is near a crossroad. If some effective fiscal measures are adopted, the downturn will be short and mild. Calculations show, that such measures should be adopted in a short time, i.e. this quarter before it will be too late. KEDI's pessimistic alternative of the 1980-1982 forecast shows, that unless a fiscal measure is taken, the drop in the economic activity would represent a drop in real 1980 GNP around 8%.

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TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1440.7	1431.7
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	152.2	152.2
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.4	84.6	85.7
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.8	10.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1442.6	1430.1	1430.3	1431.6	1433.9
Index of Indust. Production	1967=100	152.2	152.1	149.6	149.0	149.2	150.0
Unemployment Rate	%	5.9	6.1	7.6	8.0	7.8	7.4
Capacity Utilization Rate	%	85.7	85.1	81.0	79.5	80.1	81.4
Private Housing Starts	mil. units	1.721	1.266	1.109	1.133	1.190	1.175
Car sales	mil. units	10.8	9.5	7.4	7.0	7.9	8.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1433.9	1442.7	1450.2	1457.8	1470.6	1455.3
Index of Indust. Production	1967=100	150.0	151.2	153.2	154.2	157.8	154.1
Unemployment Rate	%	7.4	7.6	7.1	7.0	6.5	7.0
Capacity Utilization Rate	%	81.4	82.3	83.1	85.7	86.8	84.5
Private Housing Starts	mil. units	1.175	1.110	1.274	1.390	1.451	1.306
Car sales	mil. units	8.0	9.8	10.4	10.9	11.1	13.3

1.2 PRICES

(Table 02. on page 15)

There has been a revision here in the forecast. Due to the sharper than expected downturn in economy in the last two months and expected continuation of sluggish pace, the forecast of the general price increase has been reduced somewhat.

		Forecast of April Issue	Forecast of this issue
Consumer Price Index	1980 average	247.3	246.9
GNP Price Deflator	1980 average	182.8	182.3

The revised forecast was brought about by two main factors:

1. The assumption concerning the introduction of the import surcharge has been dropped. It had been assumed that such a surcharge would take effect in June of this year. Now the indications are that it will be imposed in 1981.
2. There has been a revision in prices of some agricultural products.

The Agriculture Department reported that the number of cattle marketed in April was lower than had been expected. Also, the number of young animals placed on feedlots went down from the level of a year earlier. Cattle futures dropped in response.

There has been an excess amount of pork available. Future prices for some frozen pork has been declining.

The large supply of some food items, such as pork, chicken, turkeys and dairy products should mean good buys (relatively speaking) for consumers in June. However, as demand and supply come more into line, prices will begin to move upward again in the latter part of this year.

In April, consumer prices went up at an annual rate of 10.8 per cent. That is a lower rate of gain. The slowdown resulted from the lowering of home mortgage rates, easing of energy price gains, and lower rates of gain in food prices.

That April slowdown in inflation is good news when it is compared to the higher rates in the first three months of this year. However, the forecast for late 1980 and for 1981 remains cloudy. KEDI expects the December rate will be 12.2 per cent.

The chairman of the Council on Wage and Price Stability, Alfred Kahn also indicated that the current slowdown is of a temporary nature. The forecast by KEDI supports this view.

The price of energy will continue to play a major role in the increases in the cost of living. This Institute maintains its Assumption 1. on page 6 . The average price of oil on the international market will keep increasing. In 1980 it will go up to the $34 range. In 1981 it will be in the $40 range and in 1982 $46 will be the price we have to pay.

Recent developments in the price strategy of the OPEC nations confirm that stable oil prices are most unlikely. Saudi Arabia recently increased its price for crude oil by about 8 per cent.

This was described as an effort to restore pricing unity to OPEC as Saudi oil was cheaper than other members. The group next meets during the second week of June. It is not likely that any pricing unity will come out of that meeting. The Iranian oil minister indicated that a price of $40 per barrel by the end of this year was quite possible.

Between March of 1979 and March of 1980 the average total earnings of American families went up by 8 per cent to $395 a week. Unfortunately, that gain was wiped out--and then some--by the 14 per cent jump in that time period in consumer prices.

The National Center for Economic Alternatives has a Basic Necessities Inflation Index. It includes the price of energy, housing, food and medical care. In the first quarter of this year, that index shot up by 23.7 per cent on an annual basis. The four items used in the index account for about two-thirds of the average family budget. Gas and heating oil were the biggest contributors to the rise. The gain in these was 64.8 per cent in the first quarter. (Is it any wonder that wood burning stoves and thermal underwear are making a comeback.)

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	227.7	217.5
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	247.2	236.2
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2459.4	2369.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1581.2	1510.0
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	387.5	387.3

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.5	244.4	250.2	256.4	246.9
Producer Price Index, NSA	1967=100	236.2	258.7	266.9	276.0	285.9	271.9
Implicit GNP Price Deflator	1972=100	165.5	174.4	179.0	183.1	188.5	181.3
Gross National Product	bil.$	2369.5	2516.1	2560.0	2618.9	2700.5	2598.9
Personal Cons. Expenditures	bil.$	1510.0	1628.7	1618.7	1627.4	1682.7	1636.9
Gross Private Dom. Investment	bil.$	387.3	384.0	396.5	410.8	420.5	403.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.9	260.6	268.5	275.4	279.8	271.1
Producer Price Index, NSA	1967=100	271.9	291.9	298.5	309.6	316.4	304.0
Implicit GNP Price Deflator	1972=100	181.3	191.6	196.1	201.7	205.8	199.1
Gross National Product	bil.$	2598.9	2764.2	2843.8	2940.4	3026.4	2893.7
Personal Cons. Expenditures	bil.$	1636.9	1784.1	1830.2	1890.7	1994.1	1874.8
Gross Private Dom. Investment	bil.$	403.0	440.5	460.1	490.4	515.6	476.7

1.3 EMPLOYMENT AND LABOR

(Table 03. on page 18)

The employment forecast has been revised. The reader can see the calculations that show substantial revisions in the unemployment rates for this year and next year. The KEDI projection for 1980 through 1985 unemployment is as follows:

	1980	1981	1982	1983	1984	1985
Unemployment Rate % Revised	7.38	7.04	6.22	6.01	6.38	6.21
Unemployment Rate Previous forecast	6.92	6.49	6.12	5.89	6.24	6.13

The revisions is brought about by the economic conditions that were discussed in the Overview section of this issue. The downturn is now viewed as being deeper than had been anticipated in previous issues.

The forecast shows that unemployment will keep on increasing in the next months. Unemployment in May is expected to be at a 7.61 per cent level. The figure for June is 8.08. This is dramatically higher than the average rate for the first quarter of this year which was 6.13. It is also above the April rate of 6.96.

The peak for unemployment this year is expected to be reached in August and September. The forecast shows a rate of 8.51 per cent for August and a rate of 8.64 for September. Gradual declines are expected in subsequent months.

Involved in the calculation for the unemployment rate is Assumption 3 on page 6 . It is assumed the Government will take fiscal measures that will stimulate the economy.

The Administration has been saying unemployment would not go above 7.2 per cent. However, there are economists that see a rate of up to 9 per cent as likely to be reached. That is too pessimistic. Such a rate would indicate a deep recession. This Institute does not anticipate such an occurrence. Employment figures here have been revised downward, but they have not plummeted.

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TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.2	106.0	105.1
Employed	mil.	97.2	97.8	96.7	96.8	97.7	97.3
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.5	93.3	93.4	94.4	93.9
Unemployment Rate	%	5.80	6.13	7.55	8.01	7.81	7.38

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.1	106.6	107.3	108.0	109.1	107.8
Employed	mil.	97.3	98.5	99.6	100.5	102.0	100.2
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	93.9	95.2	96.3	97.1	98.7	96.9
Unemployment Rate	%	7.38	7.56	7.14	6.96	6.48	7.04

1.4 HOUSING

(Table 04. on page 21)

The KEDI forecast of housing starts remains basically unchanged. Housing permits issued this year are low as compared to last year. However, it is still the estimate of this Institute that they will yield a total of 1.2 to 1.3 million units in 1980.

There is support for this view. First, the April rate, a seasonally adjusted rate of 1,019 million units, was better than many analysts had predicted. Still, that total represented a decline of 2.1 per cent from the adjusted March level, and a drop of over 41 per cent from the level in April of 1979.

Secondly, declines in mortgate rates will contribute to the revival of housing activity. In the last two months, the rate for a mortgage has dropped by 2 percentage points to 12.5. The chief economist for the National Association of Home Builders, Michael Sumichrast, cited that rate change and the April rate of housing starts as having led him to revise the Association's estimate of starts up from 900,000 to 1.05 million for 1980. As can be seen, the projection by this Institute still remains above that revised figure.

The more negative side of the housing news includes the housing permits. Between March and April, there were 14.2 per cent less permits issued. When April, 1980 is compared to the figure for one year earlier, a drop of 47.3 per cent in permits is seen. Using the yearly comparison, permits for single family homes were down 54.9 per cent and multi-family

permits declined by a lesser rate of 30.8 per cent. This Institute projects the next two months will continue to show declines in this area, but there will be an end to the decline then and a plateau maintained for the rest of the year.

Looking at the housing industry as reflected in the stock market, it is possible to see a bright side: There will be some bargains as housing-related companies earnings fall and the share price drops more before any rally begins.

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TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	274	276	296	283
Housing Permits Issued	mil. units	1.680	1.499	1.591	1.652	1.398	1.535
Construction Costs-Commerc.	1972= 100	164.3	172.7	178.3	182.2	187.4	180.2
Construction Costs-Resident.	1972= 100	161.8	171.8	173.9	180.0	189.3	178.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.800	.689	.704	.758	.738
Multifamily Housing Starts	mil. units	.551	.466	.420	.429	.432	.437
Mobile Homes Shipments	thous units	283	259	238	251	248	249
Housing Permits Issued	mil. units	1.535	1.279	.971	.992	1.012	1.064
Construction Costs-Commerc.	1972= 100	180.2	193.5	197.0	199.4	202.1	198.0
Construction Costs-Resident.	1972= 100	178.8	192.1	196.1	199.2	206.6	198.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	.738	.670	.792	.894	.921	.819
Multifamily Housing Starts	mil. units	.437	.440	.482	.496	.530	.487
Mobile Homes Shipments	thous units	249	230	253	287	298	267
Housing Permits Issued	mil. units	1.064	1.011	1.115	1.198	1.214	1.135
Construction Costs-Commerc.	1972= 100	198.0	210.6	217.0	221.9	230.0	219.9
Construction Costs-Resident.	1972= 100	198.5	210.8	216.7	219.5	227.3	218.6

5.0 BUDGETS

(Table 05. on page 23)

The White House and Congress continue to debate over the budget proposal for fiscal 1981. At the end of May, the House rejected a $613.3 billion budget. On paper, that budget actually showed a surplus of $500 million--small potatoes at these lofty levels of money talks. The aim of a balanced budget is a noble one for governments in better times. It is hardly attainable or practical given current economic conditions. It is the projection of this Institute that that goal will be abandoned. The forecast here of a $10 billion deficit in the fiscal 1981 Federal Budget remains unchanged.

It is probable that Congress will approve a balanced budget. However, the assumption here is that it will not last for the entire fiscal year because the Administration will likely adopt fiscal measures to give assistance to the ailing economy.

The KEDI projection for government budgets at the state and local level has been revised in this issue. The changes are small and show some decline in the surpluses. The revision has been made to reflect unemployment payments that are going to be higher than had been expected. Also, the new estimates reflect receipts in corporate and indirect taxes which will be somewhat lower than had been anticipated here in recent months.

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TABLE 05. FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.4	78.5
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.7	-11.2
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.3	40.7
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	15.0	14.4
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	26.0	24.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	225.0	240.5	248.9	254.0	260.5	251.0
Corporate Profit Tax Accruals	bil.$	78.5	86.2	82.0	88.3	90.6	86.8
Surpl./Deficit	bil.$	-11.2	-21.6	-20.7	-20.5	-19.1	-20.5
State and Local Governments:							
Income Taxes	bil.$	40.7	39.7	40.3	44.1	43.6	41.9
Corporate Profit Tax Accruals	bil.$	14.4	15.5	15.1	16.8	18.7	16.5
Surpl./Deficit	bil.$	24.7	23.8	20.4	16.8	19.8	20.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	251.0	275.1	284.3	287.6	294.5	285.4
Corporate Profit Tax Accruals	bil.$	86.8	97.4	105.2	115.0	125.3	110.7
Surpl./Deficit	bil.$	-20.5	-14.4	-12.1	-13.2	-14.6	-13.6
State and Local Governments:							
Income Taxes	bil.$	41.9	47.5	50.8	56.2	61.7	54.1
Corporate Profit Tax Accruals	bil.$	16.5	20.8	24.1	26.1	27.2	24.6
Surpl./Deficit	bil.$	20.2	18.6	20.0	22.1	24.2	21.2

1.6 INCOME

(Table 06. on page 26)

The projection for income has been revised downward for reasons stated in earlier sections. The main adjustments here are for indicators of personal income and personal disposable income. On the other hand, the new forecast only slightly affects the overall corporate profit estimates. Within corporate profits, there are significant differences that show up in the detailed forecast.

Not unexpectedly, topping the list of profit makers is the petroleum industry. This is followed by chemicals, electrical machinery, defense industries, paper, textile, nonferrous metals, airplanes, food and service industries.

If 1980 is compared to 1979, no substantial changes in profits are expected in non-electrical machinery, aerospace, transportation, and banking.

Profit declines in the automobile, construction, housing, steel, rubber, and lumber industries are going to be larger than KEDI estimates of recent months had indicated.

There is some good news about the personal savings rate. The forecast shows that the negative trend in this area will begin to reverse in the latter half of this year. Such savings will begin to move back to more normal levels.

Wages and salaries did go up in the first quarter by 2.4 per cent from the prior quarter. The Bureau of Labor Statistics new employment cost index was changed to include overtime pay and most fringe benefits. That measure produced a quarterly gain in compensation of 2.7 per cent. These figures are, of course, not adjusted for inflation as the reader knows. This was covered in section 1.2 of this issue. Getting a pay raise for most people in reality has been a matter of trying but not succeeding in beating the gains in the cost of living. In April, inflation adjusted gross average weekly earnings declined by 1.2 per cent.

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2005.0	1924.2
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1683.1	1624.1
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1513.2	1459.5
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	148.8	144.6
Personal Saving	bil.$	72.0	79.2	85.9	70.3	57.5	73.2
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	224.1	218.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1924.2	2057.2	2080.7	2120.1	2485.2	2110.8
Personal Dispos. Income	bil.$	1624.1	173612	1759.3	1789.7	1829.5	1778.7
Compensation of Employees	bil.$	1459.5	1554.6	1560.2	1571.7	1659.7	1586.6
Corp. Profits After Tax	bil.$	144.6	155.5	155.0	152.9	159.7	155.8
Personal Saving	bil.$	73.2	64.2	68.4	75.7	79.3	71.9
Average Weekly Earnings	$	218.7	226.0	227.1	228.3	231.2	228.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2110.8	2260.6	2321.8	2381.5	2454.3	2354.6
Personal Dispos. Income	bil.$	1778.7	1900.3	1931.8	2071.6	2110.9	2003.7
Compensation of Employees	bil.$	1586.6	1780.4	1852.6	1910.6	1998.7	1885.6
Corp. Profits After Tax	bil.$	155.8	168.1	175.6	183.1	186.7	178.4
Personal Saving	bil.$	71.9	81.6	86.4	90.5	97.2	88.9
Average Weekly Earnings	$	228.2	236.4	243.5	250.8	252.4	245.8

1.7 MONEY AND CREDIT

(Table 07. on page 29)

The forecast for the growth of the money supply, M1-A, during 1980 shows a growth rate of 3 per cent over the previous year. Such a rate of growth is well below the Federal Reserve target of 4.5 per cent growth in the first half of this year and a 5 per cent gain in the remainder of the year. Until the middle of May, the growth rate of the money supply had fallen at an annual rate of 2 per cent. The projection by KEDI shows that the third quarter will be flat. The fourth quarter will show an increase.

The forecast concerning demand for commercial and industrial loans indicates improvement to come. It is expected that the volume of loans will stop shrinking during the second quarter. In the six weeks ending in mid-May, loans at leading banks dropped by $4.6 billion to $153.5 billion.

Other views on the future of loan demand differ from KEDI. Some have expressed the view that loans will continue downward putting fierce competitive pressure on banks. Other bankers view the loan demand scene as being flat for the rest of the year. There are also those that see continued shrinkage of loan demand during 1980. None of these views are agreed with here.

As far as consumer credit is concerned, the reader is aware of the restrictions the Federal Reserve set on March 14. That contributed to what is seen as a three month decline by this Institute. After June it is projected here that there will be slight and gradual increases in consumer credit. The Federal Reserve restrictions were UNNECESSARILY harsh.

The Treasury Secretary recently indicated that consumers had done their part in cutting credit purchases. He was giving the consumer his okay to spend more normally. Perhaps he should have said openly that the whole credit crunch was a mistake, but that would have been asking too much of the bureaucracy.

What this amounts to is the fact that the government's action to point the finger at all of us as responsible for inflation was taken literally. We cut credit buying so much that retail sales were excessively damaged and the economic downturn was given some added momentum. It is not felt here that a thank you is in order for the campaign against credit cards. The campaign should have addressed itself to the government's own monetary and fiscal policies as a prime target.

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TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
Currency+Demand Deposits	bil.$	352.8	358.4	361.7	365.4	369.7	363.8
Time Deposits, Adjusted	bil.$	580.2	1422.3	1459.6	1488.5	1515.2	1471.4
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	298.2	298.2
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	265.7	265.7
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.6	115.6
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	454.2	454.2
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	363.8	376.1	362.4	372.8	386.9	374.6
Time Deposits, Adjusted	bil.$	1471.4	1576.3	1592.4	1618.1	1640.3	1606.8
Consumer Instal. Credit	bil.$	298.2	304.3	305.2	310.1	317.0	317.0
Commerc.and Ind. Loans at Banks	bil.$	265.7	278.7	276.7	282.9	288.5	288.5
Negotiable Cert.of Deposits	bil.$	115.6	120.1	130.5	139.1	144.3	144.3
Mortgages at S&L Assns.	bil.$	454.2	453.4	454.5	457.2	464.1	464.1
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	374.6	396.2	405.1	414.2	424.7	410.1
Time Deposits, Adjusted	bil.$	1606.8	1650.1	1708.3	1762.4	1802.1	1730.7
Consumer Instal. Credit	bil.$	317.0	327.2	332.4	344.1	353.1	353.1
Commerc.and Ind. Loans at Banks	bil.$	288.5	292.1	304.5	316.1	327.8	327.8
Negotiable Cert.of Deposits	bil.$	144.3	149.2	156.3	166.8	179.2	179.2
Mortgages at S&L Assn.	bil.$	464.1	478.9	485.6	499.3	504.6	504.6

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 08. on page 32.)

Due to the recent cuts in interest rates by the Federal Reserve, and actions by other Government agencies, the forecast here concerning such rates has been lowered substantially. Some of the recent developments are as follows: The Federal Reserve discount rate was reduced to 12 per cent in late May.

More large banks cut their prime rate to 14 per cent in the last days of May. This undercut the fees of other banks. More banks will follow suit in the competition for customers.

Some banks also reduced their broker loan rate along with their lowering of their prime rate. (This is the fee charged to securities firms for loans that are backed by stocks.)

In mid-May the ceiling on mortgage rates was cut significantly. A whopping 1.5 percentage points was cut from the rate bringing it to the 11.5 per cent level for single-family homes insured by the FHA or VA. The Secretary of Housing and Urban Development said that the new rate will enable rougly 3.5 million more households to qualify for a mortgage on a $60,000 house.

Another change was the reduction in the interest ceiling for financing mobile homes or property improvements. This rate was cut from 18 to 16.5 per cent.

There is a drawback to the new lower interest rates. It shows up when the U.S.A. prime rate of 14 per cent and other related

rates are compared to rates in other countries; Great Britain, France, Japan, and Canada, for instance. Our rates are getting below their levels.

If the Federal Reserve policy of chipping away at the interest rates is continually pursued, it will undermine the international position of the dollar even more. That will lead to another spiral in the gains in prices of exports and imports. It will also contribute to the rate of inflation in general. It is hardly likely that Japan, Canada, and European countries will follow the lead and reduce their interest rates. Hence, the gap between the rates here and in other countries will widen.

The KEDI projections for United States interest rates show them as stabilizing in the second part of this year after some more decreases during the next few months. (See Table 08. on page 32.)

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TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.96	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	12.21	10.60
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.58	9.78
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.65	9.56
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.13	106.54	105.30	102.83

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	15.07	10.06	9.87	10.14	11.29
Prime Rate	%	12.76	17.56	15.41	14.28	12.86	11.83
Mortgage Rate, New Homes	%	10.60	12.89	13.52	12.51	12.14	12.77
Aaa Bonds Rate	%	9.78	11.72	12.06	11.34	11.02	11.54
Long Term Govt. Bonds Yield	%	9.56	12.69	12.92	12.58	12.14	12.58
Standard & Poor's 500 Average	1941-43=100	102.83	116.21	115.30	110.42	112.31	113.50

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	13.15	11.26	11.31	11.12	10.05	10.94
Prime Rate	%	17.85	12.43	12.65	12.14	11.75	12.25
Mortgage Rate, New Homes	%	13.16	11.06	10.85	10.54	10.23	10.67
Aaa Bonds Rate	%	13.67	10.04	10.67	10.98	11.03	10.68
Long Term Govt. Bonds Yield	%	12.70	11.63	11.25	11.14	10.96	11.25
Standard & Poor's 500 Average	1941-43=100	110.17	114.51	117.34	115.26	113.28	115.09

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, car sales for the first quarter 1980 have been selected for comparison. Actual data are taken from the U.S. Department of Commerce, April, 1980 estimate. Forecast data are from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond Va., February 1980, Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

U.S. CAR SALES

(First Quarter 1980, mil. units, SAAR)

Actual: 9.5

	Page in Business Forecasts 1980	Forecast	% of Accuracy
Chemical Bank	21	10.1	+6.3
Philadelphia National Bank	25	8.8	-7.4
University of California	26	8.9	-6.3
KEDI	31	9.4	- .1
Data Resources	33	9.5	.0
Equitable LIfe Assurance	34	9.4	- .1